

Message Text

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PAGE 01 QUITO 01005 121818Z
ACTION ARA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01
COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07 INT-05 L-03
NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 OES-06 SP-02
SS-15 STR-04 TRSE-00 ACDA-07 IGA-02 FEA-01 MC-02 /103 W
-----121827Z 024352 /47

R 112340Z FEB 77
FM AMEMBASSY QUITO
TO SECSTATE WASHDC 3203
INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 1005

E.O. 11652: GDS
TAGS: ENRG MASS EC
SUBJ: GOE SUPREME COUNCIL MEMBER BLOCKS PROGRESS TOWARDS GOE-GULF
OIL SETTLEMENT, IN IRE OVER USG REFUSAL RE KFIR SALES

REF: QUITO 979

1. BEGIN SUMMARY: VARIOUS SNAGS ARE BLOCKING FINAL
SETTLEMENT OF THE GOE'S BUY-OUT OF GULF'S HOLDINGS IN
ECUADOR. PERHAPS MOST FORMIDABLE SNAG IS REFUSAL OF THE HEAD
OF THE AIR FORCE TO SIGN A GOE DECREE
AUTHORIZING THE REQUIRED FINANCING FOR
THE GOE. ANOTHER IS A RULING BY THE ATTORNEY GENERAL THAT
THE LETTER OF CREDIT TO BE ISSUED ON BEHALF OF GULF MUST
PROVIDE FOR JURISDICTION IN ECUADOR; GULF SAYS JURISDIC-
TION MUST BE OUTSIDE ECUADOR. ALSO, THE STATE
OIL CORPORATION (CEPE) IS INSISTING THAT THERE BE NO
SIGNING OF THE FINAL SETTLEMENT UNTIL IT HAS RECEIVED
PAYMENT FOR THE "RUTH" SHIPMENT, A PAYMENT NO LONGER
BLOCKED BY GULF (SINCE GULF'S WITHDRAWAL OF ITS SUIT
AGAINST THE PURCHASER OF THE "RUTH" SHIPMENT), BUT NOW
OVER DUE FROM THE OIL BROKERAGE FIRM MARC RICH WHICH
MAY BE UNWILLING TO MAKE THE PAYMENT. END SUMMARY.
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2. EMBASSY HAS LEARNED RELIABLY THAT SUPREME COUNCIL
MEMBER GENERAL LUIS LEORO, IN ORDER TO MAKE MANIFEST HIS
IRE (REPORTED IN REF) OVER THE USG'S VETO OF ISRAELI
KFIR AIRCRAFT SALES TO ECUADOR, IS REFUSING TO JOIN THE
OTHER TWO MEMBERS IN SIGNING A DECREE AUTHORIZING THE
CONTRACTING OF A LOAN THAT WOULD PROVIDE TO THE GOE THE

FINANCING NEEDED FOR THE GOE'S BUY-OUT OF GULF OIL COMPANY'S HOLDINGS IN ECUADOR.

3. THE DECREE REPORTEDLY HAS BEEN ON LEORO'S DESK FOR THREE DAYS NOW. BECAUSE OF THE NON-SIGNING OF THE DECREE, GOE FINANCE MINISTER, SANTIAGO SEVILLA, WE COMPELLED TO CANCEL A TRIP HE WAS TO HAVE MADE FEB. 10 TO NEW YORK TO SIGN THE \$100 MILLION LOAN AGREEMENT WITH LOEB-RHOADES/MORGAN GUARANTY.

4. COMMENT: WHILE THE SETTLEMENT OF THE BUY-OUT OF GULF IS IMPORTANT ENOUGH TO THE GOE TO LEAD US TO EXPECT THAT THE OTHER TWO SUPREME COUNCIL MEMBERS WILL BEGIN TWISTING LEORO'S ARM TO GET HIS HAND TO SIGN THE DECREE, HE APPEARS TO BE IN A STRONG POSITION TO CONTINUE TO HOLD OUT, AND THE OTHER TWO COULD FORCE HIM TO SIGN ONLY SOME POLITICAL EXPENSE TO THEMSELVES.
END COMMENT.

5. ALSO SNAGGING PROGRESS TOWARDS SIGNING OF THE AGREEMENT FOR THE GOE'S BUY-OUT OF GULF ARE (A) A RULING BY THE GOE ATTORNEY GENERAL THAT CITIBANK'S LETTER OF CREDIT ON BEHALF OF GULF MUST PROVIDE FOR JURISDICTION IN ECUADOR RATHER THAN IN THE U.S., AND (B) INSISTENCE BY CEPE THAT THE OIL BROKERAGE FIRM MARC RICH MUST PAY, IN ADVANCE OF THE SIGNING OF THE GOE-GULF AGREEMENT, SOME \$10 MILLION DUE TO CEPE FOR THE DISPUTED "RUTH" CARGO. IN SPITE OF GULF'S WITHDRAWAL OF ITS SUIT AGAINST THE US. FIRM ARCO OVER THE RUTH CARGO AND ARCO'S PAYMENT FOR THE SHIPMENT
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TO ITS BROKER, MARC RICH, RICH HAS REFUSED TO PAY CEPE.

6. REGARDING THE ATTORNEY GENERAL'S RULING, GULF'S LAWYERS HERE ASSERT THAT A GOE DECREE ISSUED LAST SEPTEMBER CLEARLY STIPULATES THAT FINANCIAL AGREEMENTS INVOLVING THE GOE (SUCH AS THE CITIBANK LETTER OF CREDIT) CAN PROVIDE FOR JURISDICTION OUTSIDE ECUADOR IF THE RESPECTIVE AGREEMENT IS CONTRACTED OUTSIDE ECUADOR (AS THE LETTER OF CREDIT COULD BE). FINANCE MINISTER SEVILLA TOLD GULF LAST WEEK THAT HE WOULD TAKE UP THE ISSUE WITH SUPREME COUNCIL MEMBER DURAN PROMPTLY TO SEEK AN OVERRULING OF THE ATTORNEY GENERAL'S POSITION ON THE ISSUE. HOWEVER, ON FEB. 11 SEVILLA TOLD GULF LOCAL MANAGER JACK O'BRIEN THAT HE HAD NOT YET BEEN ABLE TO TAKE UP THE MATTER WITH DURAN. O'BREIN HAS TOLD THE EMBASSY THAT GULF WILL NOT ACCEPT ECUADOREAN JURISDICTION FOR THE CITIBANK LETTER OF CREDIT. O'BRIEN SAID HE UNDERSTANDS THAT THE BANK OF AMERICA, WHICH IS TO ISSUE THE "BALANCING" LETTER OF CREDIT ON BEHALF OF THE GOE, HAS ALSO DECIDED THAT ITS LETTER MUST PROVIDE FOR

JURISDICTION OUTSIDE ECUADOR.

7. REGARDING THE MARC RICH ROLE, THERE APPEARS TO BE NO LEGAL JUSTIFICATION FOR CEPE'S POSITION THAT THE BROKERAGE FIRM MUST PAY ITS DEBT TO CEPE IN ADVANCE OF THE SIGNING OF THE GOE-GULF FINAL SETTLEMENT. (COMMENT: WE SUSPECT THAT ELEMENTS IN CEPE THAT OPPOSE THE GOE-GULF SETTLEMENT ARE USING THIS AS A DILATORY PLOY.) O'BRIEN SAID IT IS NOT UNLIKELY THAT MARC RICH WILL NEVER PAY UP THE \$10 MILLION IT OWES CEPE, BECAUSE THE BROKERAGE FIRM HAS BEEN HAVING AN ACRIMONIOUS DISPUTE WITH CEPE AND HAS FINANCIAL CLAIMS AGAINST CEPE.

8. HOW LONG, O LORD, HOW LONG?
BLOOMFIELD

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NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
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Sent Date: 11-Feb-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
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Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3338999
Secure: OPEN
Status: NATIVE
Subject: GOE SUPREME COUNCIL MEMBER BLOCKS PROGRESS TOWARDS GOE-GULF OIL SETTLEMENT, IN IRE OVER USG REFUSAL RE
KFIR SALES
TAGS: ENRG, MASS, EC
To: STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/6f1d6ec7-c288-dd11-92da-001cc4696bcc
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